InfraCore

Essential Contracting Solutions
He Toki Taukari Whakaea

# Financial Statements

# InfraCore Limited

2019/20

## Financial Statements Index

INFRACORE LIMITED

## STATEMENT OF RESPONSIBILITY

FOR THE YEAR ENDED 30 JUNE 2020

The Directors of InfraCore Limited accept responsibility for:

- the preparation of the Company's financial statements, and statements of expenses and capital expenditure, and for the judgements expressed in them;
- having in place a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting and non-financial reporting;
- the accuracy of any end-of-year performance information prepared by the Company, whether or not that information is included in the annual report.

In the Directors opinion:

- The financial statements and statement of service performance fairly reflect the financial position of the Company as at 30 June 2020 and its operations for the year ended on that date.

**Director**
26th November 2020

**Director**
26th November 2020

INFRACORE LIMITED

# ENTITY INFORMATION

FOR THE YEAR ENDED 30 JUNE 2020

**Date of Incorporation**
27 July 2015

**Company Number**
5758268

**IRD Number**
117-357-767

**Nature of Business**
The business of the company is the constructing, maintaining and managing infrastructure and facility assets. Providing high quality cost effective services in the following areas: three waters, city cleaning, parks operations, civil works, and supply of nursery products.

**Business Location**
70 Vaughan Road and Queens Drive, Government Gardens, Rotorua

**Registered Office**
1061 Haupapa Street, Rotorua

**Directors**
John McRae – Chair
William Lawson (appointed 1/10/17)
Vivienne Scott (appointed 9/01/2019)
Brent Whibley (appointed 9/01/2019)

**Auditor**
Audit New Zealand, on behalf of the Auditor-General

**Banker**
BNZ Bank, Rotorua

**Solicitor**
Holland Beckett, Rotorua

**Shareholder**

| | | |
|---|---|---|
| Rotorua District Council | 100% shareholder | 1,616,081 Ordinary Shares |

# STATEMENT OF SERVICE PEFORMANCE – 2020

FOR THE YEAR ENDED 30 JUNE 2020

## How we did in 2020

2020 proved to be a successful year for InfraCore despite the challenges faced with the Covid-19 global pandemic. Much work has been undertaken during the year including reshaping the management team, improving all levels of reporting and implementation of dashboards and improving business relationships. Part of the reshaping was analysing the Statement of Intent and the performance measures and determining they could be updated from the original approved measures adopted in June 2019. Consultation with Management and Rotorua Lakes Council lead to the new statement of intent and performance measures being adopted in March 2020. These new measures have given the InfraCore clear direction to improve not only financially but be more socially responsible and valuable to the residents of Rotorua.

Business improvement measures have also been implemented throughout the year which has made the business more resilient to encounters faced throughout the year. This includes the development of excellent financial and operational reporting capability which will give us the ability to track financial and non-financial information and make timely business decisions and ensuring utilisation of resources are optimised.

InfraCore has also engaged in a number of social initiatives providing employment opportunities and development. We look forward to continuing on our journey to social outcomes, using the platform we have available to enrich the community through increased employment opportunities.

The company is looking forward to another positive year in 2021, solidifying the gains made from this financial year and continuing to grow and improve.

| | Performance measure | Target for FY20 | Status |
|---|---|---|---|
| 1 | To achieve financial budget | To achieve financial budget allowing any future surpluses to be used to enhance business capability and invest in further plant and equipment and/or capability. | **Achieved**<br>Budget was set to break even and a surplus of $118k was achieved. |
| 2 | To secure additional revenue within this financial year that upon completion has a positive contribution to margin. | To secure additional revenue streams within the financial year that increases EBITDA compared to budget. This will be measured upon project completion, and monitored on a monthly basis. | **Achieved**<br>There were a total of 3 completed projects during the year, contributing to $128k of profit to the bottom line. |

| | Performance measure | Target for FY20 | Status |
|---|---|---|---|
| 3 | Consolidated KPI scoring Parks and Open Spaces | 75% | **Not Measured**<br>Due to Covid19, scores were not given between March and June. Last score given was in March 2020 and was 80% |
| 4 | Consolidated KPI Utilities | 75% | **Achieved**<br>Annual Average 89%<br>June Result 100% |
| 5 | Targeting full employee engagement with Health and Safety | 75% | **Achieved**<br>76% this was based upon employee attendance in the health and safety committee representative meetings |
| 6 | Gain ISO 9001 accreditation | 100% | **Not Achieved**<br>Working towards accreditation. 70% completed. |
| 7 | Individual performance plan in place per employee | 90% | **Achieved**<br>100% - All InfraCore employees have individual performance plans that are set with their managers. We have a performance management process that is followed, with annual and 6 monthly reviews. |
| 8 | Develop and document social enterprise project of work | 3 | **Not Achieved**<br>Currently we have:<br>• 1 project completed<br>• 1 project underway<br>• 1 further project under discussion.<br>Projects undertaken are with other government departments and local organisations to provide training and job opportunities. |
| 9 | Understand the satisfaction level of the beneficiaries of the social enterprise's activities (Engagement survey) | 70% | **Not Achieved**<br>Not yet measured as the work has not been completed. |

## STATEMENT OF SERVICE PEFORMANCE - 2019

FOR THE YEAR ENDED 30 JUNE 2019

**How we did in 2019**

2019 was Infracore's 4th year of operating as a CCO, a year in which a number of realignment measures were taken to further reshape the business in order to provide more efficient services to RLC. InfraCore restructured during the 2019 financial year, which resulted in a number of redundancies. A number of projects were won for new clients in the open and competitive market. On the whole these projects have been delivered, or are in flight to be delivered on time. However, one of the projects has experienced financial challenges due to unforeseen market tensions for skilled resources between the time of tender and award. This is a contributing factor towards Infracore only meeting four of the performance KPIs within the SoI.

These challenges have led to a change of leadership and reduction in numbers of the senior management team. Financial Year 2020 will see a number of changes to the performance measures as well as a new strategy to manage the Infracore business. This will take the company away from the trend of disappointing results and into a more aligned and socially responsible position to serve RLC and the residents of the Rotorua region.

**Performance target results:**

| Performance goal | | Target for the 2018/19 year | Status |
|---|---|---|---|
| Financial | | | |
| 1 | Maintaining a sustainable financial position<br>Measure = Net Profit Before Tax (NPBT) as a percentage of turnover (NPBT excluding any budgeted "one off" items) | NPBT as a % of actual turnover is between **+0 to +5%** | **Not Achieved**<br>Loss position attributed to the redundancy cost factored into the year as well as reduced project income expected.<br>A disappointing 4th year of operations and a result of -5%. |
| 2 | Establishing a sustainable level of turnover for the business to support the capacity in the business to deliver to the desired standards.<br><br>Measure = % Growth in annual turnover (excluding discontinued services) (Turnover estimated as needing to ultimately be $20M+) | Turnover increase of **10%+** versus that of the previous year | **Not Achieved**<br>3.5% increase as a result of not generating adequate project/additional revenue. |

| | | | |
|---|---|---|---|
| 3 | Building resilience into income sources by reducing percentage of income from RLC core O&M services, RLC Nursery purchases or Minor project work for RLC.<br>% of income not from RLC core O&M work, RLC minor project work or RLC nursery purchases. | % of income not from RLC core work, nursery purchase or RLC minor project work is greater than **20%** | **Not Achieved**<br>Non-council revenue accounts for 14% of total revenue. |
| Customer | | | |
| 4 | Meeting customer's service needs<br><br>Average satisfaction ratings from clients for the year that show the business is performing at or above satisfactory levels. | Customer satisfaction of 7+<br>Based on a 10 point scale where<br>1-4 is unacceptable<br>5-6 is satisfactory<br>7-10 is exceeding requirements | **Not measured**<br>With a change in senior leadership InfraCore is reviewing how this information is gathered and is streamlining the collection process from customers.<br><br>RLC prepare satisfaction scores for Water Operations and Parks and Open Spaces. These results have been satisfactory, however InfraCore is always looking for ways to improve customer satisfaction and will be actively seeking this in FY2020. |
| 5 | Affordability of services<br><br>Total charges for core O&M services to Council, on a like for like basis, year on year, moving by CPI or less. | Total charges for core O&M services move by CPI or less versus previous year.<br><=100% + CPI (CPI for June 2019 was 1.7%) | **Achieved**<br>Total charges were 101.7% of the previous year. The measure has been normalised to account for the service level change in the Rotorua Inner City Operations and Maintenance Contract. |
| 6 | Ongoing cost of services<br><br>Charges to Council for core Operations and Maintenance (O&M) services in dollars per head of population. | $ value per head of population of core O&M services averages <$150/head. | **Achieved**<br>$138.90<br>Measure used includes only the core work provided to RLC by InfraCore and not any additional works undertaken. |
| Internal Processes | | | |
| 7 | Efficiency and productivity of service offering as gauged by InfraCore's market competitiveness. | $ value of additional work acquired from 3rd parties and competitive tenders. (Project income, Income | **Not achieved**<br>$1,904m of additional work ($1,101m of project revenue, $270k of trading revenue and $533k of nursery sales) has been |

| | | | |
|---|---|---|---|
| | The volume of additional work the company picks up from 3rd parties, or through competitive tenders. As judged by the $ value of the income from project work, trade & sundry sales and from other Councils. | from other Councils and trade and sundry income). **>$3.0M** | received during the year which is $1,096 below target. InfraCore will be working in the 2019/2020 year to grown revenue streams under new direction. |
| 8 | Proving delivery, management and planning capabilities.<br><br>As indicated by ability to deliver project work<br>• on time (Hitting agreed deadlines)<br>• within budget (Costs as a % of income)<br>• to quality (Losing no contract retentions). | Achieving,<br>• Time - All projects delivered within agreed timeframes. AND<br>• Cost - Keeping all project work direct costs as % of income across the full project portfolio for the year equal to, or better (lower) than, the % targeted in pricing that work. AND<br>• Quality - Losing no contract retentions | **Not Achieved**<br>• Time – Of the four projects undertaken during the year, one didn't meet the expected timeframe by four days. The other projects undertaken have met timeframes where applicable, or InfraCore have worked alongside key stakeholders to accommodate protracted timelines.<br>• Cost – Due to timing delays of project tendering and work completion, this measure was not achieved during the year. InfraCore is working to ensure future phases have improved project controls.<br>• Quality – Infracore has not historically lost any retentions on work. |
| 9 | Targeting a ZeroHarm workplace<br><br>Reducing the company's lost time levels due to injury in terms of % hours lost per hours worked.<br>**AND**<br>Having no serious harm injuries. | Achieving both<br>% of lost time hours due to injury as % of total hours of **<0.18%**<br><br>**AND**<br>No serious Harm injuries. | **Achieved**<br>0.08% was the percentage of hours lost.<br><br>There were no serious harm injuries. |
| Organisational Capacity | | | |
| 10 | Improving staff engagement<br><br>Deliver a continuing overall improvement in staff | Survey engagement score of >56<br>16-17 Market average score = 57.0 | **Not achieved**<br>47 engagement capital overall was the result from the 2019 survey. |

| | | | |
|---|---|---|---|
| | engagement rating for the company versus the baseline of the 2015/16 year. As measured through external benchmarked surveying. | 2015-16 Survey result = 49.5<br>2016-17 Survey result = 54.5<br>2017-18 Survey result = TBA | InfraCore has committed to a new values roll out which will occur over the 2020 year. This roll out will realign all staff. |
| 11 | Investment in training and development<br>Total spend on training and development as a % of turnover | Total spend on training and development as a % of turnover<br>**= 2.5%+** | **Not Achieved**<br>Investment in training was 1.4% of turnover. Key highlights included taking all management and key personnel through structured development training and the feedback from this has been extremely positive. |
| 12 | Lifting our capabilities, and the capabilities in the community.<br>Percentage of staff engaged in or completing formal work related qualifications. | Percentage of staff engaged in or completing formal work related qualifications = **10%+** | **Achieved**<br>10.9% engaged in formal qualifications.<br>Of the 137 headcount, 15 were in formal training. |

INFRACORE LIMITED

## STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSE

FOR THE YEAR ENDED 30 JUNE 2020

| | Notes | Actual 2020 $000 | Actual 2019 $000 |
|---|---|---|---|
| **Revenue** | | | |
| Operating revenue | 2 | 13,009 | 12,321 |
| Other revenue | 3 | 2,520 | 1,907 |
| **Total Revenue** | | **15,529** | **14,228** |
| | | | |
| **Expenses** | | | |
| Personnel costs | 4 | 9,349 | 9,173 |
| Depreciation and amortisation expense | 12/13 | 549 | 515 |
| Director remuneration | 5 | 65 | 53 |
| Finance costs | 6 | 55 | 74 |
| Other expenses | 7 | 5,393 | 5,125 |
| **Total Expenses** | | **15,411** | **14,940** |
| | | | |
| **Surplus/deficit before tax** | | **118** | **(712)** |
| Income tax expense | 11 | - | - |
| **Surplus/deficit after tax** | | **118** | **(712)** |
| Other comprehensive revenue and expense | | - | - |
| **Total comprehensive revenue and expense** | | **118** | **(712)** |

*NOTE: The accompanying notes form an integrated part of these financial statements*

INFRACORE LIMITED

# STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2020

| | Notes | Actual 2020 $000 | Actual 2019 $000 |
|---|---|---|---|
| **Assets** | | | |
| **Current Assets** | | | |
| Cash and cash equivalents | 8 | 863 | 92 |
| Receivables and prepayments | 9 | 2,172 | 2,517 |
| Inventories | 10 | 653 | 731 |
| **Total current assets** | | **3,688** | **3,340** |
| **Non-current assets** | | | |
| Taxation Refund Due | | - | 1 |
| Intangible Assets | 12 | 290 | 501 |
| Property, plant and equipment | 13 | 1,481 | 1,623 |
| **Total non-current assets** | | **1,771** | **2,125** |
| **Total assets** | | **5,458** | **5,465** |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Payables under exchange transactions | 14 | 689 | 601 |
| Payables under non exchange transactions | 14 | 153 | 171 |
| Accruals | 15 | 61 | 67 |
| Employee entitlements | 16 | 1,020 | 818 |
| Borrowings | 17 | 5 | 3,210 |
| **Total current liabilities** | | **1,927** | **4,867** |
| **Non-current liabilities** | | | |
| Borrowings | 17 | 2,816 | - |
| **Total non-current liabilities** | | **2,816** | **-** |
| **Total Liabilities** | | **4,743** | **4,867** |
| **Net Assets** | | **715** | **598** |
| **Equity** | | | |
| Retained earnings | 18 | (901) | (1,018) |
| Share capital | 18 | 1,616 | 1,616 |
| **Total equity** | | **715** | **598** |

The Board of Directors of InfraCore Limited authorise these financial statements for issue on 26th November 2020.

*NOTE: The accompanying notes form an integrated part of these financial statements*

## STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2020

| | Notes | Actual 2020 $000 | Actual 2019 $000 |
|---|---|---|---|
| **Balance at 1 July** | | **598** | 1,310 |
| Surplus/(deficit) | | 118 | **(712)** |
| **Balance at 30 June** | 18 | **716** | **598** |

*NOTE: The accompanying notes form an integrated part of these financial statements*

INFRACORE LIMITED

## STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2020

| | Notes | Actual 2020 $000 | Actual 2019 $000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from revenue | | 15,874 | 13,421 |
| Payment to suppliers and employees | | (14,377) | (14,587) |
| Directors fees | | (65) | (53) |
| Goods and services tax | | (18) | 56 |
| Interest received | | 2 | 3 |
| *Net cash flow from operating activities* | 19 | **1,416** | **(1,160)** |
| **Cash flows from investing activities** | | | |
| Receipts from sale of property, plant and equipment | | - | 82 |
| Payments to acquire property, plant and equipment | | (185) | (125) |
| Payments to acquire Intangible Assets | | (15) | (261) |
| *Net cash flow from investing activities* | | **(200)** | **(304)** |
| **Cash flows from financing activities** | | | |
| Interest on loans/CARL facility | | (55) | (74) |
| Proceeds from loans | | 14 | 1,250 |
| Loan Repayments | | (404) | - |
| *Net cash flow from financing activities* | | **(445)** | **1,176** |
| **Net (decrease)/increase in bank accounts and cash** | | **771** | **(288)** |
| Cash and cash equivalents at the beginning of the year | | 92 | 380 |
| **Cash and cash equivalents at the end of the year** | 8 | **863** | **92** |

*NOTE: The accompanying notes form an integrated part of these financial statements*

## 1. STATEMENT OF ACCOUNTING POLICIES FOR THE YEAR ENDED 30 JUNE 2020

**Reporting Entity**
InfraCore Limited ('the Company') is a limited liability company incorporated in New Zealand under the Companies Act 1993 and is domiciled in New Zealand. The Company is fully owned by the Rotorua Lakes Council and is a Council Controlled Organisation as defined under section 6 of the Local Government Act 2002.

The Company has designated itself as a public benefit entity (PBE) for financial reporting purposes.

The financial statements of the Company are for the year ended 30 June 2020. The financial statements were authorised for issue by the directors on 26th November 2020.

**BASIS OF PREPARATION**
The financial statements have been prepared on the going concern basis.

**Statement of compliance**
The Company is a reporting entity for the purposes of the Financial Reporting Act 2013. These financial statements comply with the Financial Reporting Act 2013, the Companies Act 1993, and Section 69 of the Local Government Act 2002.

These financial statements have been prepared in accordance with Tier 2 PBE accounting standards.

The entity is eligible and has elected to report in accordance with Tier 2 PBE Standards RDR on the basis that the entity has no public accountability and has expenses >$2m and <$30m.

These financial statements comply with PBE standards.

**Measurement base**
The financial statements have been prepared on a historical cost basis.

**Functional and presentation currency**
The financial statements are presented in New Zealand dollars and all values are rounded in thousands. The functional currency of the Company is New Zealand dollars.

### SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies which materially affect the measurement of financial results and financial position have been adopted in the preparation of the financial statements.

**Revenue**
Revenue is measured at the fair value of the consideration received or receivable.

**Revenue from exchange transactions**
Operating revenue is recognised when earned. Lease income is recognised on an accrual basis with reference to the leases and rental agreements in force at balance date, with adjustment for rent paid in advance.
Revenue from sale of goods is recognised when the goods are sold to the customer. Revenue from sales of services is recognised by reference to the stage of completion of the service delivered at balance date as a percentage of the total services to be provided.

Interest income is recognised using the effective interest method.

**Revenue from non-exchange transactions**
Covid-19 wage subsidy issued by the government is considered non-exchange. Revenue is recognised when the subsidy is approved. Revenue would not be recognised if the qualifying conditions of the subsidy were no longer met.

**Borrowings and borrowing costs**
Borrowings are initially recognised at their fair value plus transaction costs. After initial recognition, all borrowings are measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after balance date.

Borrowing costs are recognised as an expense in the period in which they are incurred.

*Finance leases*
A finance lease transfers to the lessee substantially all the risks and rewards incidental to ownership of an asset, whether or not title is eventually transferred. At the start of the lease term, finance leases are recognised as assets and liabilities in the statement of financial position at the lower of the fair value of the leased asset or the present value of the minimum lease payments.

The finance charge is charged to the surplus or deficit over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability. The amount recognised as an asset is depreciated over its useful life. If there is no reasonable certainty whether InfraCore will obtain ownership at the end of the lease term, the asset is fully depreciated over the shorter of the lease term and its useful life.

**Trade debtors and other receivables**
Trade debtors and other receivables are recognised at their face value less any provision for doubtful debts. Collectability of trade debtors is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off.

**Trade creditors and other payables**
Trade creditors and other payables are stated at cost which is the fair value of the consideration to be paid in the future for goods or services received, whether or not billed.

**Cash and cash equivalents**
Cash and cash equivalents include cash on hand and call deposits. Bank overdrafts that are repayable on demand and form part of the Company's cash management are included for the purposes of the statement of cash flows.

**Employee entitlements**
Liabilities for accumulating short-term entitlements are measured at nominal value based on unused entitlement accumulated at current rate of pay at balance date.

**Goods & Services Tax**
All items in the financial statements are stated exclusive of GST, except for receivables and payables, which are stated on a GST inclusive basis. Where GST is not recoverable as input tax then it is recognised as part of the related asset or expense.

The net amount of GST recoverable from, or payable to, the Inland Revenue Department is included as part of receivables or payables in the statement of financial position. The net GST paid to, or received from the Inland Revenue Department, including GST relating to the investing and financing activities, is classified as an operating cash flow in the statement of cash flows.

Commitments and contingencies are disclosed exclusive of GST.

**Income tax**
Income tax expense includes components relating to both current tax and deferred tax.

Current tax is the amount of income tax payable based on the taxable profit for the current year, plus any adjustments to income tax payable in respect of prior years. Current tax is calculated using tax rates (and tax laws) that have been enacted or substantively enacted by balance date. Deferred tax is the amount of income tax payable or recoverable in future periods in respect of temporary differences and unused tax losses.

Temporary differences are differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred tax is measured at the tax rates that are expected to apply when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at balance date. The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the entity expects to recover or settle the carrying amount of its assets and liabilities.

Deferred tax liabilities are generally recognised for all taxable temporary differences.

Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences or tax losses can be utilised.

Current and deferred tax is recognised against the surplus or deficit for the period, except to the extent that it relates to a business combination, or to transactions recognised in other comprehensive revenue and expense or directly in equity.

**Provisions**

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, the sacrifice of economic benefits is probable and the amount of the provision can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at balance date, taking into account the risks and uncertainties surrounding the obligation.

Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

**Property, plant & equipment**

Property plant and equipment consists of:

*Operational assets*

These assets include motor vehicles and various plant and equipment.

*Additions*

The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits or service potential associated with the item will flow to the Company and the cost of the item can be measured reliably.

*Disposal*

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses on disposals are recognised in the statement of comprehensive revenue and expense.

*Subsequent costs*

Costs incurred subsequent to initial recognition are capitalised only when it is probable that future economic benefits or service potential associated with the item will flow to the Company and the cost of the item can be measured reliably.

*Depreciation*

Depreciation is provided on either a straight-line basis or diminishing value on all property, plant and equipment at rates that will write-off the cost of the assets to their estimated residual values over their useful lives.

The useful lives and associated depreciation rates of major classes of assets have been estimated as follows:

*Straight-line Depreciation*

| | |
|---|---|
| Plant and equipment | 2-35 years |

*Diminishing Value Depreciation*

| | |
|---|---|
| Motor vehicles | 19% |
| Plant and equipment | 19% |

**Intangible Assets**

***Intangible Assets Under Development – Software Licenses***

*Initial Recognition*

Costs directly attributable to the development of computer software are capitalised as intangible assets only when technical feasibility of the project is demonstrated, the Company has an intention and ability to complete and use the software and the costs can be measured reliably. Such costs include purchases of materials and services and payroll-related costs of employees directly involved in the project. Research costs are recognised as an expense when incurred.

Acquired computer software licences are initially capitalised at cost, which includes the purchase price (net of any discounts and rebates) and other directly attributable cost of preparing the asset for its intended use. Direct expenditure including employee costs, which enhances or extends the performance of computer software beyond its specifications and which can be reliably measured, is added to the original cost of the software. Costs associated with maintaining the computer software are recognised as an expense when incurred.

*Subsequent Recognition*

Computer software licences are subsequently carried at cost less accumulated amortisation and accumulated impairment losses. These costs are amortised to profit or loss using the straight-line method over their estimated useful lives of three years. The amortisation period and amortisation method of intangible assets other than goodwill are reviewed at least at each balance sheet date. The effects of any revision are recognised in profit or loss when the changes arise.

**Critical accounting estimates and assumptions**

In preparing these financial statements the company has made estimates and assumptions concerning the future. These estimates and assumptions may differ from subsequent actual results. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations or future events that are believed to be reasonable under the circumstances.

The estimates and assumptions that have a significant risk of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year are discussed below:

**Useful lives of property, plant and equipment**

At balance date, the Company reviews the useful life of its buildings and infrastructural assets. Assessing the appropriateness of useful life and residual value estimates requires the Company to consider a number of factors, such as the physical condition of the assets, expected period of use of the assets by the Company, and expected disposal proceeds from the future sale of the assets.

An incorrect estimate of the useful life will impact on the depreciation expense recognised in the profit and loss, and the carrying amount of the assets in the statement of financial position. The Company will minimise the risk of this estimation uncertainty by physical inspections of assets, and asset replacement of programmes in line with useful life expectations.

**Impairment of property, plant and equipment and intangible assets**

The Company performs impairment testing with respect to its property, plant and equipment and intangible assets. In determining whether impairment exists, the carrying value of an asset exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use.

The fair value less cost of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental the value in use calculation for cash generating assets is based on a discounted cash flow model.

The cash flows are derived from the forecasted cash flows. The recoverable amount is sensitive to the discount rate used for the discounted cash flow model and well as the expected future cash inflows.

**Inventories**

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a first-in first-out basis. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.



DL

## 2. RLC REVENUE

| | Actual 2020 $000 | Actual 2019 $000 |
|---|---|---|
| **Exchange revenue** | | |
| Rotorua Lakes Council – Services Revenue | 12,813 | 11,639 |
| Rotorua Lakes Council – Nursery and Leasing Revenue | 196 | 482 |
| Rotorua Lakes Council – Other Revenue | - | 200 |
| **Total operating revenue** | **13,009** | **12,321** |

## 3. OTHER REVENUE

| | Actual 2020 $000 | Actual 2019 $000 |
|---|---|---|
| Trading and Sundry Income | 1,533 | 1,904 |
| Government Grants – Covid19 Subsidy | 986 | - |
| Interest Received | 2 | 3 |
| **Total other revenue** | **2,520** | **1,907** |

## 4. PERSONNEL COSTS

| | Actual 2020 $000 | Actual 2019 $000 |
|---|---|---|
| Salaries and wages | 8,770 | 8,153 |
| Employer superannuation contributions | 282 | 258 |
| Other employee related costs | 297 | 762 |
| **Total personnel costs** | **9,349** | **9,173** |

## 5. DIRECTORS REMUNERATION

Directors' remuneration was paid as follows:

| | Actual 2020 $000 | Actual 2019 $000 |
|---|---|---|
| Israel Hawkins | - | 4 |
| John McRae | 24 | 19 |
| William Lawson | 12 | 10 |
| Charles Kaka | 3 | 10 |
| Viviene Scott | 12 | 5 |
| Brent Whibley | 13 | 5 |
| **Total remuneration** | **65** | **53** |

No other benefits have been provided by the Company to a Director or in any other capacity. No loans have been made by the Company to a Director nor has the Company guaranteed any debts incurred by a Director.



DL

## 6. FINANCE COSTS

| | Actual 2020 $000 | Actual 2019 $000 |
|---|---|---|
| Interest on loans | 55 | 74 |
| **Total finance costs** | **55** | **74** |

## 7. OTHER EXPENSES

| | Actual 2020 $000 | Actual 2019 $000 |
|---|---|---|
| Audit New Zealand (Financial Statement Audit) | 31 | 25 |
| Administration and overhead | 1,835 | 1,796 |
| Inventories consumed | 1,591 | 1,449 |
| Maintenance | 189 | 229 |
| Telecommunication | 104 | 92 |
| Insurance | 67 | 65 |
| Consultancy | 33 | 104 |
| Bank charges | 5 | 4 |
| Travel and accommodation | 7 | 2 |
| Legal | 29 | 39 |
| Loss / (gain) on disposal | 5 | 22 |
| Other expenses | 1,497 | 1,298 |
| **Total other expenses** | **5,393** | **5,125** |

## 8. CASH AND CASH EQUIVALENTS

| | Actual 2020 $000 | Actual 2019 $000 |
|---|---|---|
| Cheque account | 863 | 92 |
| **Total cash and cash equivalents** | 863 | **92** |
| **Net cash and cash equivalents for the purposes of the statement of cash flows** | **863** | **92** |

## 9. RECEIVABLES AND PREPAYMENTS

| | Actual 2020 $000 | Actual 2019 $000 |
|---|---|---|
| Receivables from exchange transactions | 2,036 | 2,395 |
| Prepayments | 136 | 123 |
| **Total receivables** | **2,172** | **2,517** |

## 10. INVENTORIES

| | Actual 2020 $000 | Actual 2019 $000 |
|---|---|---|
| **Held for distribution inventories** | | |
| Inventories held for use in the provision of goods and services | 264 | 246 |
| **Commercial inventories** | | |
| Inventories held for sale | 389 | 485 |
| **Total inventories** | **653** | **731** |

No inventory is pledged as security for liabilities (2019: $nil).

## 11. INCOME TAX

| | Actual 2020 $000 | Actual 2019 $000 |
|---|---|---|
| **Components of tax expense** | | |
| Current tax | - | - |
| Deferred tax expense | - | - |
| **Tax expense** | - | - |
| | | |
| **Relationship between income tax expense and accounting surplus** | | |
| Surplus/(Deficit) for the year | 118 | (712) |
| Tax at 28% | - | - |
| **Plus/(less) tax effects of:** | | |
| Tax effect of accounting loss | 33 | (199) |
| Group loss offset | - | 10 |
| Losses brought forward | 414 | (143) |
| Loss to carry forward | 350 | 383 |
| Permanent differences | - | - |
| Deferred tax asset/(liability) not recognised | 31 | (51) |
| **Tax expense** | - | - |

It is expected that the company's taxable loss for the year ($1,250,060) will be carried forward to offset against future taxable income (2019 loss: $1,367,413).

A deferred tax asset movement has not been recognised in relation to temporary differences of $109,861 (2019: $180,275).

## 12. INTANGIBLE ASSETS

| | Actual 2020 $000 | Actual 2019 $000 |
|---|---|---|
| Opening Cost | 666 | 405 |
| Accumulated amortisation opening | (166) | - |
| Opening carrying amount | 501 | 405 |
| Additions | 16 | 261 |
| Disposals (net of accumulated amortisation) | - | - |
| Amortisation expense | (226) | (166) |
| Closing cost | 682 | 666 |
| Accumulated Amortisation | (392) | (166) |
| **Carrying amount at 30 June 2020** | **290** | **501** |

The intangible assets relate to the field service system NextService and Finance system NetSuite. The expected costs are to be amortised over three years. Any additional costs in relation to the system will be expensed in the period too which they relate.

## 13. PROPERTY, PLANT, AND EQUIPMENT

Movements for each class of property, plant and equipment are as follows:

| | Equipment $000 | Motor vehicle $000 | Total $000 |
|---|---|---|---|
| Opening cost 1 July 2018 | 640 | 2,588 | 3,228 |
| Accumulated depreciation opening | (147) | (1,128) | (1,275) |
| Opening carrying amount | 493 | 1,460 | 1,953 |
| Additions | 114 | 11 | 125 |
| Disposals (net of accumulated depreciation) | (32) | (74) | (106) |
| Depreciation expense | (84) | (265) | (349) |
| Closing cost | **722** | **2,445** | **3,166** |
| Accumulated depreciation closing | **(231)** | **(1,313)** | **(1,544)** |
| Carrying amount at 30 June 2019 | **491** | **1,132** | **1,623** |
| Opening cost 1 July 2019 | 722 | 2,445 | 3,166 |
| Accumulated depreciation opening | (231) | (1,313) | (1,544) |
| Opening carrying amount | 491 | 1,132 | 1,623 |
| Additions | 149 | 39 | 188 |
| Disposals (net of accumulated depreciation) | (4) | (3) | (8) |
| Depreciation expense | (113) | (210) | (323) |
| Closing cost | **865** | **2,477** | **3,342** |
| Accumulated depreciation closing | **(343)** | **(1,518)** | **(1,861)** |
| Carrying amount at 30 June 2020 | **522** | **958** | **1,481** |

There are no restrictions over the title of property, plant and equipment. There are no items of property, plant and equipment that are pledged as security for liabilities.



OL

## 14. PAYABLES

| | Actual 2020 $000 | Actual 2019 $000 |
|---|---|---|
| **Payables under exchange transactions** | | |
| Creditors | 689 | 601 |
| **Total payables under exchange transactions** | **689** | **601** |
| **Payables under non exchange transactions** | | |
| GST | 153 | 171 |
| **Total payables under non exchange transactions** | **153** | **171** |
| **Total payables** | **841** | **772** |

## 15. ACCRUALS

| | Actual 2020 $000 | Actual 2019 $000 |
|---|---|---|
| **Current portion** | | |
| Income in advance | 46 | 49 |
| ACC Accredited Employers Programme | 15 | 19 |
| *Total current portion* | 61 | 67 |
| **Total accruals** | **61** | **67** |

## 16. EMPLOYEE ENTITLEMENTS

| | Actual 2020 $000 | Actual 2019 $000 |
|---|---|---|
| **Current portion** | | |
| Annual leave and payroll accrual | 982 | 776 |
| Long service leave and retirement gratuities | 38 | 42 |
| **Total employee entitlements** | **1,020** | **818** |

## 17. BORROWINGS

| | Actual 2020 $000 | Actual 2019 $000 |
|---|---|---|
| **Current portion** | | |
| Finance Leases | 5 | - |
| Bank of New Zealand CARL Facility | - | 400 |
| Loan from Rotorua Lakes Council | - | 2,810 |
| *Total current portion* | 5 | 3,210 |
| **Non-current portion** | | |
| Finance Leases | 6 | - |
| Loan from Rotorua Lakes Council | 2,810 | - |
| *Total non-current portion* | 2,816 | - |
| **Total borrowings** | **2,820** | **3,210** |

| | Actual 2020 $000 | Actual 2019 $000 |
|---|---|---|
| **Minimum lease payments payable** | | |
| Not later than one year | 5 | - |
| Later than one year and not later than five years | 6 | - |
| Later than five years | - | - |
| *Total minimum lease payments* | 10 | - |
| Future finance charge | - | - |
| *Present value of minimum lease payments* | 10 | - |
| **Present value of minimum lease payments payable** | | |
| Not later than one year | 5 | - |
| Later than one year and not later than five years | 6 | - |
| Later than five years | - | - |
| *Present value of minimum lease payments payable* | 10 | - |

The loan to Rotorua Lakes Council is on a three month cyclical renewal. As at 30 June 2020, the effective rate of interest was 0.6117% (2019: 1.8017%).

## 18. Equity

### (a) Share Capital

| | Actual 2020 $000 | Actual 2019 $000 |
|---|---|---|
| Opening Balance – Number of shares (1,616,081) | 1,616 | 1,616 |
| **Total Share Capital** | **1,616** | **1,616** |

### (b) Retained Earnings

| | Actual 2020 $000 | Actual 2019 $000 |
|---|---|---|
| Balance at 1 July | (1,018) | (306) |
| Surplus/(deficit) | 118 | (712) |
| **Total Retained Earnings** | **(901)** | **(1,018)** |
| | | |
| **Total Equity** | **715** | **598** |

## 19. RECONCILIATION OF NET SURPLUS/(DEFICIT) TO NET CASH FLOW FROM OPERATING ACTIVITIES

| | Actual 2020 $000 | Actual 2019 $000 |
|---|---|---|
| **Net Surplus/(deficit)** | **118** | **(712)** |
| **Add/(less) non-cash items:** | | |
| Depreciation | 549 | 559 |
| (Gain) / Loss on sale of assets | 5 | (22) |
| Total non-cash items | **555** | **537** |
| | | |
| **Add/(less) items classified as investing or financing activities** | | |
| Interest on loans from Rotorua Lakes Council/CARL | 55 | 74 |
| Total net movement in investing or financing items | **55** | **74** |
| | | |
| **Add/(less) movements in statement of financial position items** | | |
| (Increase)/Decrease in receivables | 328 | (945) |
| (Increase)/Decrease in other current assets | 78 | 71 |
| Increase/(Decrease) in payables and accrued expenses | 282 | (185) |
| Total net movement in working capital items | **689** | **(1,059)** |
| **Net cash flow from operating activities** | **1,416** | **(1,160)** |

## 20. RELATED PARTY TRANSACTIONS

Related party disclosures have not been made for transactions with related parties that are within a normal supplier or client/recipient relationship on terms and conditions no more or less favourable than those that it is reasonable to expect the Company would have adopted in dealing with the party at arm's length in the same circumstances.

Further, transactions with other government agencies (for example, government departments and Crown entities) are not disclosed as related party transactions when they are consistent with the normal operating arrangements between government agencies and undertaken on the normal terms and conditions of such transactions.

## 21. TRANSACTIONS WITH PARENT

The Company entered into transactions with:

| | Actual 2020 $000 | Actual 2019 $000 |
|---|---|---|
| The company paid administration and overhead costs to Rotorua Lakes Council (excl. GST) | 420 | 492 |
| Received sales from Rotorua Lakes Council (excl. GST) | 13,009 | 11,839 |
| Accounts payable to Rotorua Lakes Council | 39 | 134 |
| Accounts receivable from Rotorua Lakes Council | 1,608 | 1,838 |
| Received a Loan from Rotorua Lakes Council | - | 850 |
| Paid Interest to Rotorua Lakes Council | 46 | 74 |

## 22. INTEREST REGISTER

The Company is required to maintain an interest register in which the particulars of certain transactions and matters involving the Directors must be recorded. The interest register is available for inspection at the operational office.

### INFORMATION USED BY DIRECTORS

During the financial year, there were no notices received from directors of InfraCore Limited as, or any subsidiary, requesting to use information received in their capacity as a director which would not otherwise have been available to them.

### INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

The Company has arranged policies of the Directors' and Officers' Liability Insurance and separate Director's and Officers' defence costs insurance.

## 23. EMPLOYEE REMUNERATION

The following numbers of employees, who were not directors, received remuneration and benefits which exceeded $100,000 value for the 2020 financial year: six (2019: five).

| | |
|---|---|
| $100,000 - $109,999 | 2 |
| $120,000 - $129,999 | 1 |
| $150,000 - $159,999 | 1 |
| $160,000 - $169,999 | 1 |
| $230,000 - $239,999 | 1 |

### Transactions with key management personnel:

| | Actual 2020 $000 | Actual 2019 $000 |
|---|---|---|
| **Senior management team including chief executive** | | |
| Full time equivalent members | 6 | 5 |
| Remuneration | 895 | 1,076 |
| **Directors** | | |
| Full time equivalent members | 4 | 5 |
| Remuneration | 65 | 53 |
| **Total full time equivalent personnel** | **10** | **9** |
| **Total key management personnel remuneration** | **960** | **1,129** |

## 24. SEVERANCE PAYMENTS

For the year ended 30 June 2020 the Company made two severance payments to two employees of $10,000, and $15,000 (2019: three severance payments to three employees of $5,000, $35,000 and $87,675).

## 25. AUDITORS

The Auditor General is appointed under Section 15 of the Public Audit Act 2001. Audit New Zealand has been appointed to provide these services on his behalf. Provision for audit fee for the year was $31,000 excl. GST (2019 $25,109 excl. GST).

## 26. DONATIONS

No donations were made by the company during the year (2019: nil).

## 27. CONTINGENT LIABILITIES

At balance date contingent liabilities have been estimated at nil (2019: nil).

## 28. COMMITMENTS

| | Actual 2020 $000 | Actual 2019 $000 |
|---|---|---|
| **Commitment Type** | | |
| Commitment to lease 20-40 Queens Drive per annum | 99 | 190 |
| Commitment to lease 64-70 Vaughan Road | 217 | 416 |
| | 316 | 606 |
| Not later than one year | 291 | 291 |
| Later than one year and not later than five years | 24 | 315 |
| | 316 | 606 |

## 29. EVENTS AFTER BALANCE DATE

There have been no significant events after the balance date (2019: nil).

## 30. CATEGORIES OF FINANCIAL INSTRUMENTS

The carrying amount of financial instruments in each of the financial instrument categories are:

| | Actual 2020 $000 | Actual 2019 $000 |
|---|---|---|
| **Loans and receivables** | | |
| Cash and cash equivalents | 863 | 92 |
| Receivables (excluding tax receivable) | 2,036 | 2,395 |
| *Total loans and receivables* | **2,899** | **2,487** |
| **Financial liabilities at amortised cost** | | |
| Payables (excluding taxes payable) | 689 | 601 |
| Borrowings | 2,820 | 3,210 |
| *Total current portion* | **3,509** | **3,811** |

## 31. CAPITAL MANAGEMENT

The Company's capital is its equity, which comprise shareholders' funds. Equity is represented by net assets.

The objective of managing the Company's equity is to ensure that the Company effectively achieves its goals and objectives for which it has been established while remaining a going concern.

## 32. GOING CONCERN

The company has obtained a letter of comfort from the 100% shareholder, Rotorua Lakes Council (RLC) regarding their on-going relationship with InfraCore Limited and that RLC will ensure that InfraCore Limited is adequately resourced in the short and medium term.

Based on this letter the company believes that the going concern basis of preparation is applicable to the entity.

At 30 June 2020 the company's assets exceed their liabilities by $715,000 (2019: $643,000).

## 33. REPORTING AGAINST FINANCIAL FORECASTS AS SET OUT IN STATEMENT OF INTENT

| | Target 2020 $000 | Actual 2020 $000 | Variance 2020 $000 |
|---|---|---|---|
| Revenue from RLC for core services | 10,244 | 9,809 | (435) |
| Income from Discontinued services provided to RLC | 850 | 999 | 149 |
| Revenue from RLC from additional minor works | 550 | 1,687 | 1,137 |
| Revenue from RLC for purchased and leased Nursery products | 546 | 196 | (350) |
| Revenue from RLC for specifically contracted project work | - | 318 | 318 |
| Revenue from Non-RLC sources | 1,846 | 2,520 | 674 |
| *Total Revenue* | *14,036* | *15,529* | *1,493* |
| | | | |
| Business costs (ex depreciation and amortisation) | (13,513) | (14,862) | (1,349) |
| Depreciation and Amortisation | (523) | (549) | (26) |
| *Total expenses* | *(14,036)* | *(15,411)* | *(1,375)* |
| | | | |
| **Net surplus/(deficit) before tax** | **-** | **118** | **118** |

**Explanation of major variances against financial forecast**

***Revenue***

*Core services* – reduction in revenue from Covid lock down and core Parks services not provided during that time.

*Discontinued services* – discontinued services were expected to have stopped throughout the year, however have continued on.

*Additional RLC services* – additional unscheduled and quoted works requested from RLC than expected.

*Purchased and leased Nursery products* – significant reduction in required planting from RLC than anticipated, also no planting while in lock down.

*Contracted project* – Urban renewals project awarded that was unbudgeted.

*Non-RLC sources* – reduction in operations for the 6 weeks while in lock down, offset by the Government Subsidy.

***Expenses***

*Business Costs* – due to higher revenue, there were higher need for materials and consumables and contractors to perform the revenue.

## 34. COVID-19 IMPACT

InfraCore was eligible for both the Wage and Leave subsidy initiative set out by the Government, receiving in total $986,000. As per the government directive, a number of our services were deemed non-essential which meant a significant portion of the labour workforce was required to be stood down during the Level 4 restrictions. InfraCore committed to paying all staff 100% of their contracted wages during this time. Given we also provide a number of essential services (sexton duties, provision of three waters maintenance and essential cleanliness of the CBD) we were able to continue with the provision of some services as required. All administration staff were able to work from home. Once New Zealand moved into the Level 3 restrictions, InfraCore resumed all services as per contracted arrangements.

InfraCore is working alongside the Rotorua Lakes Council on a number of "Shovel Ready" projects not only keep the current work force employed, but also to deploy additional staffing. Because of this, InfraCore does not see a significant negative impact on the future of the company in relation to Covid-19.

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

# Independent Auditor's Report

## To the readers of Infracore Limited's financial statements and performance information for the year ended 30 June 2020

The Auditor-General is the auditor of Infracore Limited (the company). The Auditor-General has appointed me, Leon Pieterse, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements and performance information of the company on his behalf.

## Opinion

We have audited:

- the financial statements of the company on pages 11 to 31, that comprise the statement of financial position as at 30 June 2020, the statement of comprehensive revenue and expense, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and

- the performance information of the company on pages 5 to 10.

In our opinion:

- the financial statements of the company on pages 11 to 31:

    - present fairly, in all material respects:

        - its financial position as at 30 June 2020; and

        - its financial performance and cash flows for the year then ended; and

    - comply with generally accepted accounting practice in New Zealand in accordance with Public Benefit Entity Standards Reduced Disclosure; and

- the performance information of the company on pages 5 to 10 presents fairly, in all material respects, the company's actual performance compared against the performance targets and other measures by which performance was judged in relation to the company's objectives for the year ended 30 June 2020.

Our audit was completed on 26 November 2020. This is the date at which our opinion is expressed.

The basis for our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and our responsibilities relating to the financial statements and the performance information, and we explain our independence.

## Emphasis of matter – Impact of Covid-19

Without modifying our opinion, we draw your attention to the disclosures about the impact of Covid-19 on the Commissioner as set out in notes 34 to the financial statements.

## Basis for our opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Responsibilities of the Board of Directors for the financial statements and the performance information

The Board of Directors is responsible on behalf of the company for preparing financial statements that are fairly presented and that comply with generally accepted accounting practice in New Zealand. The Board of Directors is also responsible for preparing the performance information for the company.

The Board of Directors is responsible for such internal control as it determines is necessary to enable it to prepare financial statements and performance information that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements and the performance information, the Board of Directors is responsible on behalf of the company for assessing the company's ability to continue as a going concern. The Board of Directors is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless the Board of Directors intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.

The Board of Directors' responsibilities arise from the Local Government Act 2002.

## Responsibilities of the auditor for the audit of the financial statements and the performance information

Our objectives are to obtain reasonable assurance about whether the financial statements and the performance information, as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers, taken on the basis of these financial statements and the performance information.

For the budget information reported in the performance information, our procedures were limited to checking that the information agreed to the company's statement of intent.

We did not evaluate the security and controls over the electronic publication of the financial statements and the performance information.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the financial statements and the performance information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.

- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.

- We evaluate the appropriateness of the reported performance information within the company's framework for reporting its performance.

- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board of Directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists we are required to draw attention in our auditor's report to the related disclosures in the financial statements and the performance information or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.

- We evaluate the overall presentation, structure and content of the financial statements and the performance information, including the disclosures, and whether the financial statements and the performance information represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our responsibilities arise from the Public Audit Act 2001.

## Other Information

The Board of Directors is responsible for the other information. The other information comprises the information included on pages 2 to 4, but does not include the financial statements and the performance information, and our auditor's report thereon.

Our opinion on the financial statements and the performance information does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements and the performance information, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the financial statements and the performance information or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Independence

We are independent of the company in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1(Revised): Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board.

Other than the audit, we have no relationship with, or interests in, the company.

Leon Pieterse
Audit New Zealand
On behalf of the Auditor-General
Tauranga, New Zealand